PREFATORY NOTE

These transcripts have been produced from the original raw transcripts in the FOMC Secretariat's files. The Secretariat has lightly edited the originals to facilitate the reader's understanding. Where one or more words were missed or garbled in the transcription, the notation "unintelligible" has been inserted. In some instances, words have been added in brackets to complete a speaker's thought or to correct an obvious transcription error or misstatement.

Errors undoubtedly remain. The raw transcripts were not fully edited for accuracy at the time they were produced because they were intended only as an aid to the Secretariat in preparing the records of the Committee's policy actions. The edited transcripts have not been reviewed by present or past members of the Committee.

Aside from the editing to facilitate the reader's understanding, the only deletions involve a very small amount of confidential information regarding foreign central banks, businesses, and persons that are identified or identifiable. Deleted passages are indicated by gaps in the text. All information deleted in this manner is exempt from disclosure under applicable provisions of the Freedom of Information Act.

Meeting of the Federal Open Market Committee
November 5, 1991

A meeting of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington, D.C., on Tuesday, November 5, 1991, at 9:00 a.m.

PRESENT: Mr. Greenspan, Chairman
Mr. Corrigan, Vice Chairman
Mr. Angell
Mr. Black
Mr. Forrestal
Mr. Keehn
Mr. Kelley
Mr. LaWare
Mr. Mullins
Mr. Parry

Messrs. Hoenig, Melzer, and Syron, Alternate Members of the Federal Open Market Committee

Messrs. Boehne, McTeer, and Stern, Presidents of the Federal Reserve Banks of Philadelphia, Dallas, and Minneapolis, respectively

Mr. Bernard, Deputy Secretary
Mr. Coyne, Assistant Secretary
Mr. Gillum, Assistant Secretary
Mr. Mattingly, General Counsel
Mr. Prell, Economist
Mr. Truman, Economist

Messrs. Broaddus, R. Davis, Lindsey, Promisel, Scheld, Siegman, Simpson, Slifman, and Ms. Tschinkel, Associate Economists

Mr. Sternlight, Manager for Domestic Operations, System Open Market Account

Mr. Ettin, Deputy Director, Division of Research and Statistics, Board of Governors
Mr. Madigan, Assistant Director, Division of Monetary Affairs, Board of Governors
Ms. Low, Open Market Secretariat Assistant, Division of Monetary Affairs, Board of Governors

Messrs. Hendricks and Salvaggio, First Vice Presidents, Federal Reserve Banks of Cleveland and Dallas, respectively
Messrs. Balbach, J. Davis, T. Davis, Ms. Greene, Mr. Lang, Ms. Munnell, and Mr. Rolnick, Senior Vice Presidents, Federal Reserve Banks of St. Louis, Cleveland, Kansas City, New York, Philadelphia, Boston, and Minneapolis, respectively

Mr. Judd and Ms. White, Vice Presidents, Federal Reserve Banks of San Francisco and New York, respectively

Transcript of Federal Open Market Committee Meeting of
November 5, 1991

CHAIRMAN GREENSPAN. We need to approve the minutes. Without objection. Today, in lieu of Sam Cross, who as all of you know is retiring on December 2, we have Gretchen Greene. I suspect that were Sam here we all would have wanted to wish him well and, Gretchen, if you wouldn't mind, by proxy please give him our best.

MS. GREENE. I certainly will. And I'm sure that I speak for him when I say that he has enjoyed working with you and will miss the associations he has had by being in this job for the last 10 years.

CHAIRMAN GREENSPAN. Well, I think Sam is going to be quoted around here for quite a long time. He has made an impression, which is quite rare for somebody at the FOMC. And it's not superfluous to say that we will miss him. Having said that, I can think of no one better qualified to sit in for Sam today than you. Would you start?

MS. GREENE. [Statement--see Appendix.]

CHAIRMAN GREENSPAN. Thank you. Questions for Ms. Greene? If not, it would be interesting to us if Ted would discuss the most recent events regarding our relationships with the Soviet Union and certain pending negotiations.

MR. TRUMAN. [Statement--see Appendix.]

CHAIRMAN GREENSPAN. Questions for Ted? If not, Gretchen, would you update us on the annual extension of the swap agreements?

MS. GREENE. Certainly, Mr. Chairman. As you know, this is the time of year when we start the process of discussing our swap arrangements with other central banks. We have no changes in the terms and conditions to suggest at this time and would request the Committee to give us the authority to begin those negotiations. The swap arrangements actually will come up for renewal at various times during the month of December and should be completed before year-end whereupon we'll come back at the first meeting in 1992 to bring you the results of those discussions.

CHAIRMAN GREENSPAN. Any questions? Would somebody like to move authorization?

VICE CHAIRMAN CORRIGAN. Move it.

CHAIRMAN GREENSPAN. Is there a second?

SPEAKER(?). Second.

CHAIRMAN GREENSPAN. Without objection. Let's move on to the Domestic Desk. Mr. Sternlight.

MR. STERNLIGHT. [Statement--see Appendix.] That concludes my report, Mr. Chairman. I do have a request on the intermeeting leeway.

CHAIRMAN GREENSPAN. Questions for Peter? We have a very uncurious group this morning! Why don't you go forward, Peter.

MR. STERNLIGHT. Thank you, Mr. Chairman. [Secretary's note: Mr. Sternlight recommended a temporary $2 billion increase in the leeway. His remarks are included in his statement in the Appendix.]

CHAIRMAN GREENSPAN. Questions? Would somebody like to move the authorization for the [leeway] increase?

MR. SYRON. So move.

VICE CHAIRMAN CORRIGAN. Second.

CHAIRMAN GREENSPAN. Without objection. We also have to ratify the transactions since the October meeting. Would somebody like to move those?

SPEAKER(?). So move.

MR. FORRESTAL. Second.

CHAIRMAN GREENSPAN. Without objection. Let's move on now to the economic situation and Mike Prell.

MR. PRELL. [Statement--see Appendix.]

CHAIRMAN GREENSPAN. Questions?

MR. SYRON. Mike, I have two questions. Is it fair to say, looking at the probability distribution in your forecast now, that you still would consider the negative tail fatter, even after your revision?

MR. PRELL. Given the direction things have been going, my gut reaction is to say "yes." But I think also that the tail isn't quite so long and so thick as before. As I said, what we've done now essentially is that we have realized some of the risks we perceived earlier [by lowering our forecast] and I think the risks may be somewhat more balanced in this forecast than before.

MR. SYRON. And just a clarification question: Did you say that in putting together the [forecast] for this Greenbook you changed the procedure regarding your assumption on where the funds rate would be? Was that before the most recent confirmation?

MR. PRELL. That's right. Our strategy normally is to take the prevailing funds rate as a neutral base for the projection. What we were looking at with that funds rate path, though, was an economic forecast that in our judgment strayed farther perhaps from the Committee's objectives than one might like in terms of presenting you with a reasonable framework for discussion. Indeed, the unemployment rate at the end of next year might have been a shade higher than it is currently rather than the level we have. So we returned to a procedure that we have used in the past of putting in policy adjustments so as to try to get closer to something we thought would be acceptable to the Committee.

MR. SYRON. Well, I thought it was very useful. But a question came out of it, in a sense: Since you assumed a 50 basis point cut, essentially--

MR. PRELL. That's correct.

MR. SYRON. --and we have gotten 25 basis points of it so far, do you consider the forecast that you have now as centered, leaving the previous question alone on the tail, with another 25 basis point cut? [Would that be] your answer as compared to another 50 basis points?

MR. PRELL. Right, but obviously 25 basis points is a very fine reading. But that is [the thought] we went into this with.

CHAIRMAN GREENSPAN. President Parry.

MR. PARRY. Looking at the forecast once we get beyond the next two quarters, short rates certainly would be considered acceptable, I think. It seems to me that one of the things that has changed rather dramatically is the thinking with regard to inventory investment. I wonder if you could comment on how you reached these conclusions because, clearly, if you had some of the previous thoughts about inventories, you probably would have shown a bit more strength.

MR. PRELL. Well, there are two things, I would say. One is that the swing in inventory investment in the quarter just ended in September was considerably larger than we had anticipated. And with the potential revisions of those data, it goes even further. In a sense we got ahead of the game that we were anticipating businesses would play here. The second factor is that as we look at the prospects for final demand and what we think businessmen might be anticipating at this juncture, we have a hard time conceiving of businesses wanting to move further in the direction of inventory accumulation at this point. So, we stretched the process out here. We have an inventory/sales ratio path that is downward through this forecast. We think that implies that at some point in the coming year, if we can just get through this period and sustain growth, there is going to be some further movement in the direction of inventory accumulation. And by the end of next year we have businesses adding to their stocks at a gradual pace. This might be regarded as a quite conservative inventory forecast. Certainly, we have model results that would suggest that that is so. But we think businesses are being very conservative in their inventory management. And to the extent that there is still stringency in credit markets affecting some businesses, I think it just encourages them even more to try to keep their inventories down to avoid having to finance a lot of stocks.

MR. PARRY. Did you suggest that there would be a possibility of that third-quarter number being revised?

MR. PRELL. Right. As I mentioned, the manufacturers inventory numbers were much higher for September than we had expected. They were also much higher than the Bureau of Economic Analysis built into their estimate of third-quarter GNP. Relative to their assumptions, there were additional manufacturers inventories of about $10 billion, in 1982 dollars at an annual rate. And that inventory investment in the third quarter is essentially equivalent to a percentage point of GNP. Whether that will be the ultimate adjustment of the GNP numbers and whether we'll see some weaker wholesale and retail figures than they anticipated, one can't say. But, clearly, it's a substantial surprise for BEA.

MR. PARRY. I would assume that they would have incorporated fairly fully what happened in the auto industry in September. I think auto inventories were very high in August; I had assumed they'd be down somewhat in September.

MR. PRELL. Are you talking about auto dealer inventories?

MR. PARRY. Yes.

MR. PRELL. Well, actually, they've been running very low, for autos in particular. Truck inventories were heavier, but they undoubtedly came down in September with the big surge in light truck financing.

MR. PARRY. But wouldn't they have taken that into [account]?

MR. PRELL. It's always a bit murky as to exactly what data they are using in estimating the retail auto component of inventories. But, yes, presumably they had a handle on what was happening in vehicles.

MR. PARRY. Thank you.

CHAIRMAN GREENSPAN. President Stern.

MR. STERN. Yes, a couple of things, Mike. I have the impression that one of the things that may be going on here is a lack of pent-up demand relative to previous recoveries, particularly in autos and in housing, in part because of the strength of the '80s. Is there anything to that?

MR. PRELL. Well, I think I showed in a chart show earlier this year our estimates of the number of unoccupied dwelling units during the '80s. The buildup was much more marked in the multifamily area than in the single-family area. But those are housing units and people can choose among these. I think there is something of an overhang in the housing market. Certainly, at this point with the new homes sales at the pace they're running, the months' supply of new homes on the market is very sizable. So, yes, that is a factor. Sorry, I forgot the other--

MR. STERN. Autos.

MR. PRELL. Auto sales were quite high through much of the 1980s and the stocks looked to be fairly sizable per household, for example. In the last couple of years the average age [of the auto stock] has leveled out; it's fairly long. As I look at the forecast going forward, I think perhaps we're beginning to develop a movement back in the other direction. If car sales stay as low as we have them in this forecast, as we look ahead another year or so the demands may begin to reflect some pent-up buying desires. But at this point we don't think those desires are very intense.

MR. STERN. My second question: Do you have a reaction to the report on the news last night and in The Wall Street Journal today about expected downward revisions in the payroll data?

MR. PRELL. Well, Janet Norwood called attention to this in her testimony before the Joint Economic Committee last year. This is a procedure that is followed routinely every year to utilize the unemployment insurance data to benchmark the payroll employment series. The data evidently did show a very abrupt drop relative to the payroll employment series estimates early this year. She cautioned against taking this as gospel at this point; these are preliminary readings. But it is conceivable that ultimately, when the revisions are made, payroll employment growth will appear less robust than before. I think the feed-through to GNP that has been implied by some of these reports is a bit tenuous. Certainly, in the short run we expect that BEA when it has a lot of data missing may give some attention to the hours input, but I wonder how important that would be looking back at history. It could be, if the employment is slower and hours commensurately lower, that productivity growth will look better than it currently does.

MR. STERN. Thank you.

MR. PRELL. It could also be that this will lead them to lower their estimates of labor income until the data from tax returns are available.

CHAIRMAN GREENSPAN. Governor Kelley.

MR. KELLEY. Mike, you substantially lowered your forecast for this quarter and the next couple of quarters and you have expressed in the last few minutes a concern that that still may be a bit too strong. If for balance you wanted to sketch out a possible case on the up side--that the situation could develop a little more strongly than you have in the Greenbook now--what would be the elements of that positive case?

MR. PRELL. Well, I wouldn't want to leave the impression that we feel there aren't any upside risks here. We continue to return to the notion that, in the absence of absolutely clear evidence that we are back into a second dip, recoveries often surprise one in their strength. So there could be unexpected areas of greater increase in expenditures. It is conceivable that the decline in mortgage rates, which seems to be inspiring a lot of refinancing--suggesting that people think these are good rates--perhaps will stimulate some additional home buying beyond what we have. My concern is, though, that people are just so worried about whether they are going to be employed that that [rate decline] may not be as powerful as it might otherwise be. It's a possibility. We don't have any clear index of what desired inventory/sales ratios are in various sectors of the economy. We can guess by the historical patterns and apparent response what that is. But maybe this goes to the earlier question: Getting a more rapid buildup of inventories could be an indication that we underestimated where businesses want [their inventories] to be and that they won't continue this kind of liquidation but rather will stay even or move into some accumulation in the near term. That could be worth a point or two, conceivably, on GNP growth in the short run. Business investment is another area, conceivably, that could be stronger, but the orders and anecdotal evidence just don't seem to suggest a lot of upside potential there. And we have consumers not spending a whole lot in the quarter. The personal saving rate ticks up. Maybe consumers, despite the worries they're expressing, will behave as they seem to have behaved throughout this recovery and spend practically every dollar they get their hands on. Maybe that's simply because many of them have their backs to the wall and they really don't have a lot of leeway, and if there is this additional income, it actually will flow into the spending stream. Those are possibilities, and cumulatively they would add up to a materially different picture.

MR. KELLEY. Let me ask, Ted, with the dollar having fallen recently: Could that be reflected in time in further recovery of net exports?

MR. TRUMAN. Well, we have incorporated into the forecast a dollar at essentially the level that we have today, though there always are uncertainties, as Gretchen has said, about how that will end up playing out in terms of the fundamental competitiveness and perceptions thereof and, therefore, export sales and import purchases. So, there is certainly some looseness to the translation between the exchange rate and everything else that goes along with it and the net export picture. And, of course, there is some uncertainty on both sides--on the up side as well as on the down side as far as growth abroad is concerned. We have a modest expansion abroad; it would certainly be easy to sketch out a scenario that is weaker than that. It's also possible to sketch out a scenario that is stronger either in its own right or to some extent stimulated by maybe a somewhat stronger picture here than we or others are currently thinking about. But there's some [uncertainty] on both sides, I'd say.

CHAIRMAN GREENSPAN. President Melzer.

MR. MELZER. I have two questions, Mike. One has to do with layoffs and quarterly earnings announcements. I don't know whether you ever look at that, but often those two actions might be linked. Is there a possibility that this spate of bad news we have gotten on the job front in terms of certain layoffs is simply a seasonal thing associated with the announcement of the third-quarter earnings?

MR. PRELL. Well, I suppose there could be something there. My sense is that this is an ongoing story. It may be that managements feel the ongoing negative earnings reports require some action to convince the security analysts that this is not going to be repeated in the future. Some people have noted that there seem to be a lot of layoff announcements pertaining to the fourth quarter and that this cuts against some tradition in business of not laying people off just before Christmas. My sense is that a lot of restructuring is going on in industry where this recession has revealed the need for some cost-cutting in order to get reasonable profit margins in an environment where inflation is not going to offset any looseness of management. There's this sense, too, that the layoffs are occurring in places where people thought jobs were once fairly secure. And that undoubtedly adds to the feeling among many people who would seem on the face of it to be in pretty good shape that even they could be vulnerable to some structural adjustment that seems to be going on, particularly in the service-producing sectors.

MR. MELZER. My second question relates to the statement you made about real interest rates. Just as a general matter I'm somewhat skeptical about our ability really to set those over time. In any case, I was surprised to hear you say that you felt there was considerable scope for further reduction. I'm curious as to how you're measuring that. A look that we took would indicate that on an ex ante basis using, say, [unintelligible] the CPI and a 3-month Treasury bill rate, we're beginning to get to levels that, if sustained, were associated in the '60s and '70s with periods of rising inflation. I just wanted you to expand on that if you could.

MR. PRELL. I think that's a fair statement. The rough cut I made, just looking at short rates, was perhaps the conjecture that inflation expectations might be viewed as a little less tenuous than thinking about 10- or 20-year horizons. By this assessment the short-term rates have come down considerably. One calculation I have looks very similar to the general level during the 1960s. My point really relates more to that cyclical stage typically reached toward the end of a recession when real rates quite regularly have been decidedly negative. The point is, though, that perhaps there wasn't a movement to tighten soon enough as the expansion progressed to avert that building up of inflation pressures. This isn't to say that a sharp move of the sort I suggested might be necessary in order to achieve the Humphrey-Hawkins central tendency as a rate level you want to hold for a long period. There might well be some need to move back up within a year or so. But historically, the lows in this cycle don't look at all like the lows we have seen in short-term real rates in previous cycles, certainly in the postwar period.

CHAIRMAN GREENSPAN. Other questions? Tom.

MR. HOENIG. May I ask a follow-up to Tom's question? As you described the economy, there were some fundamentals in terms of real estate and some adjustments in leverages and so forth that are going to be constraining. If we ease now, what in your judgment is the risk of pushing inflation [up] and compromising our ability to bring it down in the future, given these fundamental adjustments that probably should continue regardless?

MR. PRELL. The real estate is an easier factor to consider. The leveraging gets to be a little more difficult to pin down--i.e. whether firms really are cutting back their investment because of their debt loads. There's some anecdotal evidence that would suggest that, but I don't know how powerful a force that is. And we can see a significant amount of restructuring going on, with some of the firms that have leveraged themselves up to the hilt being able in the current environment to reduce their interest burdens and to alter their debt/equity ratios in ways that ought to give them a little more room to maneuver. I think the real estate problem is going to be there for some time and will weigh against a strong surge in the economy. The fiscal policy picture--just the total setting aside from the current budget program--will remain less than stimulative, of course. So, there are some things that [appeared] in the past in recoveries and early expansions that aren't going to be there this time. But the higher the growth rate, the lower the unemployment rate; and the less slack in the economy, the greater the risks are that you're not going to make the kind of progress toward lower rates of inflation that we have in this forecast. And that even might just be cut off entirely if we get a strong enough [trajectory]. So, these are the risks one has to weigh at this point as to whether the economy is going to prove weaker than is acceptable and whether the inflation rate might be more stubborn than we've anticipated. I must say there seems to be a lot skepticism among forecasters with outlooks for economic activity that don't differ greatly from ours about whether the disinflation trend can be sustained well into the expansion period--say, getting out into 1993. There is a sense that in the past the decline in inflation has stopped or has become very meager as people have sensed that the economy was on a solid growth track. And that might be a concern.

CHAIRMAN GREENSPAN. Further questions for Mike? If not, would somebody like to start the Committee's discussion? Bob Parry.

MR. PARRY. Mr. Chairman, economic conditions in the Twelfth District reflect widespread weakness. Recent employment data for the western states have been disappointing. Total employment fell at an annual rate of 1-1/2 percent in September. California continues to show particular weakness: Employment in California fell at an annual rate of 4-1/4 percent in September and at a 1-1/2 percent rate in October. I might note parenthetically that this issue about the reliability of the payroll series is a very controversial one in California. The Department of Finance is estimating that the peak-to-trough decline in employment in California is in excess of 300,000 as opposed to the published data of 100,000. So, it's a very hot issue; and politically it's quite an issue because tax revenues are coming in at a very low level and seem to be more consistent with the more pessimistic outlook that we have for employment. Even in states where growth has been robust in the recent past--particularly I'd cite Idaho and Utah--employment has shown lower growth or even declines in recent months. Weakness is also widespread across sectors of the western economy as well as in states. Manufacturing and construction continue to lose jobs in the District. In addition, the growth in the services sector, which has been the region's primary source of strength in recent months, has slowed to a crawl.

Anecdotal information also suggests deterioration, as pessimism about poor economic conditions has spread from California to most other parts of the District. We conduct a business sentiment survey which, among other things, asks whether or not a recession is anticipated during the next year. The last time we conducted it before this most recent period, 7 percent said they thought there would be a recession in the next year; that has risen to 17 percent.

If I can turn to the national outlook, the data that we've all seen since the last meeting have certainly led us to revise down significantly our forecast for real GNP for this quarter and the next. Our forecast for growth in the fourth quarter is that it will be slower than in the third quarter, although we do not have a double-dip recession and we don't think that is likely. Like the Greenbook, we expect growth to rebound to a much more satisfactory rate throughout most of 1992, and the major sources of strength are the interest-sensitive sectors of the economy and inventories as well. As far as inflation is concerned, I'd have to say that the news on that front is somewhat encouraging. The low fixed-weight GNP price index in the third quarter and the moderation of the employment cost index, especially wages, are encouraging. Overall, our expectation is that there will be some reduction of inflation in 1992 compared to this year, which is a bit of a difference from the Greenbook. Thank you, Mr. Chairman.

VICE CHAIRMAN CORRIGAN. Could I ask Mr. Parry a question?

CHAIRMAN GREENSPAN. Sure.

VICE CHAIRMAN CORRIGAN. Bob, just in the past few weeks I've heard a couple of people, including a really large national real estate developer, sounding very dire about the real estate outlook on the West Coast and in California particularly--much more so than anything I've heard before. Is there anything to that?

MR. PARRY. In the commercial real estate area there is.

VICE CHAIRMAN CORRIGAN. Yes, this is--

MR. PARRY. And I think if you were to focus on southern California, particularly Los Angeles, there's quite a serious problem. Vacancy rates are quite high and they're going to rise over the next year because there is an awful lot of building that will be coming on line in the next 12 months. Another area is Orange County, which is suffering as well. Those two areas are significant enough to make the general picture of the state with regard to commercial real estate look quite negative. When you look at some other areas, such as San Francisco, it's not nearly as bad. They put a moratorium on building, which has kept building at very moderate levels for the last several years; so I don't see that [area] as a problem. The other point is that the [situation in] residential real estate is quite different from the commercial. Residential, at least in terms of prices, has held up quite well, although clearly the sales of new houses are weak. It's a problem.

CHAIRMAN GREENSPAN. President Keehn.

MR. KEEHN. Mr. Chairman, in the District some signs of weakness have developed since the last meeting. Attitudes have certainly deteriorated. Anecdotal reports are coming in very much on the negative side. As always, the auto sector is the major swing element in the District and in that area the news seems to be coming in more negatively. The company that I've talked to has reduced its fourth-quarter production schedule by 8 percent from the time of our last meeting, and the production risks are still on the down side. In part, the fourth-quarter production rate is based on a dealer order rate of about 66,000 units a week. The order rate is in fact coming in substantially under that; it has averaged 52,000 units over the last five weeks and most recently it was only 43,000. In the retail auto sector, inventories are turning out okay and maybe a little on the low side. If this gap between orders and production [widens] as we get into the quarter, we're probably going to get some further production cuts. In turn, that will result in cuts in orders from the suppliers. While earlier we expected that the auto sector might have a positive effect on fourth-quarter GNP, perhaps by as much as 1-1/2 percentage points, it now seems much more likely that the sector will be flat at best and perhaps a bit negative. The production of medium size and heavy-duty trucks in September of this year was down 22 percent from last year. And in terms of a comparative year, sales were pretty weak last year.

District employment has moved sideways since April; it's up a bit in manufacturing, offset by a decline in nonmanufacturing. Retail sales came in very much on the weak side, particularly in Detroit. And one Chicago retailer told me that sales of autos in Chicago since Labor Day have begun to trail off and currently are running about 7 to 10 percent under the same [period] last year, particularly [unintelligible]. Sales of new and existing homes in the District have declined quite substantially and housing starts have dropped as well. Plant closings in the District--and I'm not talking about just temporary shutdowns but permanent closings--are continuing at what seems to me to be disturbingly high levels, with announcements day-in and day-out.

Offsetting what may seem like gloom, here and there are some bright spots. The steel business, for example, is something of a mystery. The industry is now running at about an 80 percent rate [of capacity utilization] and the estimated shipments for the year have been increased a little--from 77 million tons at the time of the last meeting to 79 million tons now--and the outlook for 1992 is even a bit better. Though the steel companies do expect some more cancellations coming out of the auto industry, steel inventories of manufacturers and also in the steel centers really are very, very low. It should mean that even if there are some cutbacks in orders from the auto companies, the steel production levels ought not to be hit too hard.

On the price front, the outlook continues to improve. I think the better conditions are centered perhaps in the manufacturing sector; the major manufacturers are able to hold down the cost of their purchases. Indeed, in some cases they really have achieved some good reductions. I have no sense that direct labor costs are increasing more than productivity gains. Deere, for example, very recently settled their contract; financially it is a little more expensive than they wanted. Nonetheless, they got very good work rule changes and they feel that they can overcome the financial aspects through productivity. And a word of caution: Caterpillar is in their negotiations and those have broken down. It looks as if they might have quite a tough strike and the settlement of that could set something of a pattern for the UAW at least [unintelligible].

Turning to the national economy, the Greenbook revisions plus the staff forecast for this year are much more in line with where we have been. But the staff forecast still seems to us to be a bit on the high side as we get into 1992. The main difference, first of all, is in consumption, particularly for durables. While the increases in the staff forecast are in reasonable alignment with the historical record, nonetheless in a current context they still seem to be a little on the high side. Net, I think we have something of a [unintelligible] on our hands, which I think we will need to address as we get into the policy deliberations.

CHAIRMAN GREENSPAN. President Forrestal.

MR. FORRESTAL. Mr. Chairman, I think the best descriptive term to use for the Sixth District economy is "quite soft," although there are still some signs of recovery out there. Several manufacturers have added to their inventories intentionally. Activity on the export side continues to be fairly good, although it's off a little from what it had been. Textiles have improved, and we've also seen some evidence of a few new capital projects. Retailers, on the other hand, are reporting flat to only very modest increases in sales. Caution by consumers, of course, is very much in their minds and they are very, very pessimistic and fearful about the Christmas season; they don't expect business to be good at all. Tourism and business travel were up slightly in October and in fact are running even a little ahead of a year ago. Our bank contacts are reporting very weak loan demand; on the other hand, we have potential borrowers who are continuing to complain about difficulty getting credit. We continue to receive that information from people on our small business advisory group, for example.

But overriding all of the statistical data about the economy is the anecdotal information, which continues to be very, very poor indeed and is quite worrisome. Everywhere I go both in business meetings and even at social affairs--cocktail parties and so on--there is a real sense of doom and gloom. In fact, I went to two functions over the weekend and I was sorry I went because people are just describing business as terrible or dismal, or words of that kind. Interestingly, though, if you ask a lot of these people if they think lower interest rates would help their business or help the economy generally, you don't get a uniform answer that "Yes, [the Federal Reserve] ought to be lowering rates." Some people think that is not the answer. They don't have an answer, but they don't necessarily think that lower interest rates are the solution. There is, of course, continuing concern about job loss, concern about consolidation in the services industry. And while unemployment hasn't risen in the District, companies are reporting an unprecedented flood of applications and resumes from people who are anticipating layoffs in their business.

On the inflation side, there's no evidence of any price increases in the District from the people we talk to. The agricultural side looks fairly good and that probably is the only substantially bright spot in the District. This confidence issue is very perplexing to me; I'm very confused about it because it doesn't really seem to stack up against the statistical data and the hard facts that are coming in. So, I guess the question that we need to ask is: Is it just disappointment that business is not as good as people expect or does it really indicate that there is a slowing in the economy and we need to take that into account?

With respect to the national economy, our forecast is a bit stronger in the near term, that is, for the fourth quarter and the first quarter of next year. But then we have growth decelerating a bit and are somewhat below the Greenbook forecast for the balance of 1992. If there is going to be a faltering in the economy, it seems to me that it's going to come on the consumer side as opposed to inventories. That is, I think consumers may well attempt to shore up their savings and to reduce their debt throughout 1992, given their concerns about the employment situation. So, in general, Mr. Chairman, I think the Greenbook forecast is not a bad forecast, given all of the uncertainties in the economy, but I continue to think that the risks are on the down side and that the economy is subject to some vulnerability. And for that reason, I would be in favor of some immediate easing of policy, though not anything dramatic. But we can get into the details of that a little later on.

CHAIRMAN GREENSPAN. President Syron.

MR. SYRON. Thank you, Mr. Chairman. Both in terms of the District and nationally, I think that in the midst of all these problems we're on the edge of some really favorable long-term developments. I don't think we should panic in the midst of the very worrisome intermediate term, but there are a lot of reasons to be concerned.

In that regard, I said last time that New England had a level of pessimism that bordered on panic. I think it's fair to say that it has passed over into the zone of panic now. One is tempted now when going to a social event to say to folks [unintelligible] because people start to berate you so much about the employment situation if you tell them what you actually do.

MR. KELLEY. Some think you haven't got a job!

MR. SYRON. That's right, and then they sympathize with you! I'm not sure that the fundamentals have changed that much but confidence seems to have fallen just dramatically, as other people have said. When one talks to the relatively small number of major newspapers in our District, one hears about a very interesting and unfortunately worrisome trend in year-over-year retail sales--and last year was not a good year in New England. Our major newspaper is seeing a 30 percent decline in their normal ad lineage for retailers going into the [holiday] season. If you follow that up by calling a few of the larger retailers, they have had quite weak performances recently and they expect a weak Christmas. I think the long and the short of it is that they're trying to cut their expenses and cut their way through this whole period; they figure that a lot of their competition isn't going to make it and they want to be there on the other side but they're not going to try to boost sales in the short run by advertising. That's very true in the auto sector where auto sales have been very poor. Inventory levels generally are not something that people express concern about but, coming back to what Mike said, we really don't know a lot about the desired inventory-sales ratio now because of these just-in-time changes. Loan demand continues very weak at our banks and even in the mortgage refinance area there has been some weakness as people expect that the economy will continue to slide and that rates will decline, so they are waiting to refinance later. Actually, in terms of fundamentals, if you look at the rate of deterioration of employment in the District, things are not getting worse as fast as they were earlier. In fact, even in the computer sector there has been some slight sign of optimism, although that is offset by weakness in manufacturing elsewhere. There is a great deal of concern in the defense sector, particularly in three of our large firms: Raytheon, United Technology, and General Electric. Wages have been very well behaved. We still have a real benefits cost problem, which is an inexorable rise in medical care costs.

As far as the national outlook goes, I agree with the Greenbook and also with Mike's characterization of where the risks lie. On that score, I must say in talking to a number of money managers in the city that one does start to have a concern, with these disappointing corporate profit figures, about what would happen if in the midst of all this we were to have another 10 percent break or so in the stock market. People are talking about that as not being at all out of the realm of possibility. There is continued concern about banks but, as I say, I think a lot of this is on the edge of a long-term favorable trend [stemming from] restructurings and, while it is temporarily a drag, we're going to see more productivity later on. So, the bottom line is that in many ways this fear that has been generated by a lot of people is partially because of the decline in asset values but also it's a cumulative awareness by corporations and even more so by individuals that their consumption levels of the '80s were not consistent with their long-term income prospects. And this is an attempt to make up for that in a quite short period of time. That is being reflected in what producers are saying as well, which is that this is a correction that we have to go through in the economy and we have to hunker down to get through it.

CHAIRMAN GREENSPAN. President McTeer.

MR. MCTEER. Mr. Chairman, the Eleventh District remains sluggish--"stuck in the mud" is a phrase one hears, or phrases similar to that--although in the third quarter we actually experienced employment increases. That's primarily the result of state and local government employment increases. We have the same fiscal problems as everybody else, but a number of our areas are under court mandate to expand and to raise taxes to do that. The Dallas Fed's index of coincident indicators has been declining fairly steadily but our leading indicators have been fairly flat. I don't have an explanation for that. Low natural gas prices continue to depress drilling activity in the District. A national retail chain headquartered in Dallas expects a weak Christmas, following a weak Christmas last year. Prospects for defense industry spending are adding to the uncertainty in our area, given all the concentration that we have [in that area]. Our directors and other local business people perceive the economy to be weak, but we don't hear as much as we used to about the need for an easier monetary policy. A typical comment is that it's not the level of interest rates that is causing the problem; it's the inability to borrow any money from banks at any interest rate. I believe Bob Forrestal mentioned that. Texas, of course, has had a credit crunch longer than the rest of the economy and, therefore, just about everybody you meet knows someone personally whom they consider a worthy and dependable borrower who cannot get credit. And some of our directors have had fairly close experiences with that. So, they're very preoccupied with the fact that banks are not making [any] loans. We actually, at their request, have scheduled a special meeting at the time of our November board meeting in which we're going to deal with the credit crunch--and possibly solve it. We'll be sure to notify you if we do! In that regard, I do think that since the business community is absolutely convinced that there is a credit crunch, they don't have a lot of patience with trying to define it or to talk about the nuances of that. And I think it behooves Federal Reserve policymakers to go ahead and accept that terminology. I don't think it does us any good to poke around it and act as if it's not there if everybody out there really believes it is.

On the national scene, our research people agree generally with the staff here. They see further weakness and they're about evenly divided as to whether that has any implications at all for monetary policy.

CHAIRMAN GREENSPAN. President Stern.

MR. STERN. Thank you, Mr. Chairman. In the District, there is really little new to report; recent trends are continuing. In the rural areas, activity remains fairly decent and attitudes are okay, I think, at least compared to what I encounter in the Twin Cities where, as I've reported before, attitudes are quite bad. Of course, that's because there is a different mix of businesses both in terms of their diversification and their scope of operations. And they pick up a lot of bad news from their other operations both domestically and internationally. The Twin Cities situation is really rather interesting. Unemployment in the Cities remains in the neighborhood of 4-1/2 percent as the computer industry [unintelligible]. The problem with that was that the medical technology business has exploded, so the adjustment has all occurred without a great deal of dislocation. But despite that, attitudes among the business community --or the preponderance of the business community that I have encountered--are quite negative. And the Twin Cities do account for a good bulk of the nonfarm economic activity in the District. In the Twin Cities we have come up with a couple of new forms, though not altogether new forms, of economic stimulus. One is hosting major sporting events. We still have the Super Bowl and the Final Four to go. But in addition, more recently we have snow removal. And that looks as if it's going to be affecting the economy for some time!

On the national outlook, I continue to think that a modest recovery is certainly the most likely outcome. I have a suspicion that we might do marginally better than the latest Greenbook forecast. But I think the real developments on the national level are on the inflation front or the disinflation front. I've become increasingly optimistic that we really are making progress there. The balance of the latest statistical evidence certainly suggests that, but I've also become more and more impressed by the anecdotal evidence that I get. It's very hard to find any evidence of price pressures and wage pressures to speak of, at least among the people I've talked to. That has been going on for a while and it has now gone on long enough that I think it really is significant. There is, of course, some ongoing carping about health care costs and about the cost of [meeting] various regulations, but there's nothing new in all that. And I don't have any sense that that situation is getting worse. So, I do think there is clearly a positive development on that side.

CHAIRMAN GREENSPAN. President Hoenig.

MR. HOENIG. The Tenth District continues to outperform the nation to some extent, although if we keep talking about it we may talk ourselves out of any improvement. It's doom and gloom from a number of people, although the numbers continue to show some improvement. For example, most of our automobile plants continue to operate at capacity. Now, in aviation manufacturing, there has been a decline in production over [the level] a year ago and that's primarily due to a drop-off in foreign demand. The District's oil and gas exploration activity remains lackluster, as it does elsewhere. Drilling rigs were up very slightly in October over September and are still well below--about 23 percent below--year-ago levels. In agriculture, cattle prices have turned [up] and are now back to the break-even point. And in the grain area, prices have increased, which has been a help in that sector. Finally, the indicators of construction activity in our District quite frankly have been improving. Building contracts awarded in the District in August were up 11 percent over year-ago levels. Residential awards are increasing in most of our states. And we're even seeing some improvement in non-residential contracts in Colorado and in New Mexico. So, the District's economy is consistently showing improvements.

As far as the national economy goes, we continue to forecast sustained growth although slightly weaker, as the staff is projecting. Our forecasts are for a little better growth than the staff has in the first half and a little more moderate growth in the second half. We see a little stronger inventory investment and some continuing strength in consumer spending; even though the attitudes are down, we don't see that dropping sharply. As for inflation, we anticipate the inflation numbers will stay modest and actually fall somewhat below 4 percent. So, that is how we are viewing things right now. Thank you.

CHAIRMAN GREENSPAN. President Boehne.

MR. BOEHNE. Well, this is all getting a bit much, I must say, with all the gloom and pessimism around the table. But I think it is quite reflective of what one hears in conversations almost wherever one goes--in business, socially, and otherwise. And my District is no exception to that. I think the economy has deteriorated over the last couple of months, and certainly sentiment has become sharply more bearish. Manufacturing had been a relative bright spot in our area, but it has slowed rather dramatically and I think the sentiment is in the process of changing about 1992. I would guess that as our future surveys come in they will reflect that, judging from the conversations one has. Retailers are about as pessimistic looking toward this Christmas season as they have been probably since the '81-'82 recession. Our commercial real estate market is typical of what you have heard elsewhere in the country. And loan demand is still declining at banks. I do sense, however, that price pressures have diminished and I think that is an optimistic part of all this.

As far as the national economy is concerned, I think the risks are decidedly on the down side. We have an anemic outlook at best and I suspect that if I'm wrong it will be on the down side. Clearly, we have something going on here that is more than a normal cyclical downturn; you can have your own list of favorites. My sense is that we're going to see a longer period of weakness in the economy, but I think most of us are going to be surprised at how much progress we're making against inflation. In this kind of situation where the resiliency of the economy is under stress, I think we're quite vulnerable to some kind of shock. I don't know what the shock will be; if we knew, it wouldn't be an unpredictable shock. But we're in a situation where some event could really turn this from a bad situation into something more serious.

There are not very many good policy options out there, but the way I look at it the only available policy tools are in this room. And I think that we simply have to ring the monetary "gong" to demonstrate that somebody somewhere is at least trying to do something positive to try to arrest this sharply deteriorating sentiment. I don't sense any real cost in doing that. In the unlikely event that we ease too much, I think we can reverse course. We tightened in 1980; we tightened in 1988; we can tighten in 1992 if we have to. But now we need a loud and clear easing signal to try to undercut this deteriorating sentiment that we have out there, which is making us quite vulnerable.

CHAIRMAN GREENSPAN. First Vice President Hendricks.

MR. HENDRICKS. Thank you, Mr. Chairman. The District's economy reflects the sluggishness that we see in the data at the national level. Employment growth has stalled. Weakness in auto sales has led to some cutbacks in production schedules. And this weakness in demand for autos has led to a more sluggish recovery in the tire industry as well. On the other hand, the steel industry--and Si reported on this--is one of the brighter spots in our District. Steel producers report that this will be the best quarter of the year, supported especially by a pickup in auto and steel warehouse business. Producers of flat-rolled steel are operating at 85 to 90 percent of capacity. But prices are weak, profits are down, and the mood certainly is not buoyant. We also were pleasantly surprised recently with the outlook for inflation that was developed by a panel of economists from firms around the Fourth District. Their projection, which had been running at about 3-1/2 to 4 percent, has been revised downward to 3 percent.

In brief, we see the growth of the economy stalling in recent months but we have no reason to believe that the recovery will not be sustained. And we are hopeful about the outlook for inflation. That concludes my report.

CHAIRMAN GREENSPAN. President Black.

MR. BLACK. It seems obvious to us that in our District people now think everything is pessimistic; whether they're consumers or business people, [they have] very low expectations. A particularly striking [example] came at our last meeting, which was a joint meeting of our Baltimore/Richmond boards, when I heard the most pessimistic statements of the economic conditions I think I've heard in the 36 years or so that I've been attending these meetings. And virtually all the reports we've gotten since then have been along that line.

From what I read and what I've heard around the table, it's pretty clear that for the most part that pessimism is equally widespread in the rest of the country and may be even more widespread in certain places. And then we got--to use Mike's term from a while ago--"a stunning confirmation" of this when we received this downward revision in the Conference Board consumer confidence series. But having said all this, I think the question we have to answer this morning is: Exactly what does this mean in terms of the near-term prospects for the economy? I certainly think it tells us something: namely, that the recovery has been weaker up until now and probably will be weaker in the immediate future than any of us thought it was going to be. The current quarter and probably the first quarter are certainly going to reflect this. So, the downward revisions in the Board staff's figures are clearly indicated. But I think it would be premature at this point to conclude that this apparently declining confidence means that the economy is necessarily going to go into a double-dip recession as some people have been assuming. Sentiment frequently remains bearish in the early stages of an economic upturn, and it's clearly even gloomier than usual this time if I remember correctly. I think the media has added a lot to this because there has been so much more hype on this than in the past.

Now, I know there are differences of opinion about what these consumer surveys show, but three studies done by different Federal Reserve Banks have suggested that they are not really very good predictors. I would say they probably are a coincident indicator at best. So, while we have this October drop in the survey of the Conference Board and this obvious pessimism in the form of anecdotal information, I'm not ready to push the panic button at this point. Some of the recent data are a bit on the favorable side at least. We had some upward revision in the payroll employment figures for August and September and the M2 numbers have turned around--not as much as I would like, but they've certainly turned around recently. And the orders and production components of the National Association of Purchasing Managers [survey] in October were generally favorable. So, I think the staff's revised forecast is reasonable. And the risks on their projection are probably equally divided, although like Gary Stern--who I believe is the only other one who said this--I think they might even be tilted a little toward the up side. So, we ought to approach this policy issue today very cautiously before we make any kind of major move toward ease.

CHAIRMAN GREENSPAN. President Melzer.

MR. MELZER. In terms of our District, I would say it is still expanding but the expansion is sluggish. We have employment growth in both manufacturing and non-manufacturing; it's somewhat stronger in manufacturing. Residential construction over the most recent three-month period is up over last year; commercial construction is still down, but down considerably less than nationally, particularly year-over-year.

On a broader prospective, my view is that certainly some of the numbers that have come out on the national economy recently are disappointing in relation to what we expected. But they really are not all that bad, as others have observed. Clearly, confidence is very sour. I guess I'm influenced by what Mike said earlier and this was confirmed by people on our staff: that confidence really has not proven to be a very good forecasting tool.

I get a sense that we're very much caught up with a very short-term orientation toward policy right now. There's considerable ease in train, whether you look at money or whether you look at interest rates. Clearly, there has not been enough time for all the effects of that to be felt. And, following up on my question to Mike Prell, I just don't see--whether you look at money or at interest rates--that there's all that much more scope for further easing. Now, certainly we can try to force interest rates down further. But I don't see why it is that we think we can step into the same trap that we have stepped into in virtually every postwar recovery and then be good enough and strong enough and smart enough to turn that around and not end up in the same position we've been in before. I think we have been approaching this whole period of the last four years considerably differently than in the past and I hope we can continue to do that. In my view, that argues for considerable caution at this juncture, in line with what Bob Black said.

CHAIRMAN GREENSPAN. Vice Chairman.

VICE CHAIRMAN CORRIGAN. I'm not going to add anything in the anecdotal area; it would be more of the same. But, like everyone else, I spend a lot of time these days scratching my head a little and asking why the recovery hasn't really taken hold and what is going on out there. The more I look at it and think about it, the more clear it becomes to me that there are a number of structural or semi-structural forces at work. A lot has been said about inventories, and that's good news and bad news; it makes the recession itself shallower, but it also means the recovery has less "pop." One thing about inventories that I hadn't really focused on until yesterday is that the sense of comfort that inventories are in good shape is okay as a generalization, but I was surprised to see when I looked at it that in the non-auto retail sector inventories are not in all that great shape. Now, maybe that's just because there are a lot more stores and maybe even a greater variety of goods; nevertheless, it's there.

But beyond the inventory situation, one of the longer-term things we all talk about is this real estate overhang. I think Dick Syron is right when he points to the fact that it's not just the overhang itself but the spillover effect it has on perceptions about asset quality prices that has an impact on confidence. Mike Prell touched on debt burdens with a bit of a question in his mind. I've had a question in my mind, but the more I think about it, the more important I think it is in terms of attitudes and financial fragility that we all have talked a lot about. The fiscal situation is ugly not just because the deficits are big but because the process is basically immobilized.

But when I think about those things, with the exception of inventories, one of the things that strikes me is that in a sense they're all symptomatic of the chickens coming home to roost. They're all symptomatic of earlier excesses of one kind or another. But I still ask myself: What do they mean? I just handed some charts to the Chairman that are based on work I had staff at the Bank do in trying to look at some of this in a much longer perspective. Just to cite a couple of examples that come out of that: When you look at the default rate on corporate bonds--this is the default rate on all rated issues, so a lot of the junk bonds aren't even in this calculation--it's currently 3 percent of all rated issues, which is by far the largest it has been in the postwar period. We did one calculation on office space that may or may not be right, but it's pretty dramatic because it says that it would take six years of service-sector employment growth at the very rapid rates of the 1980s to absorb the overhang in service-sector office space that's there now, assuming that nothing else is built for the next six years. It's a big number. If you look at the banks--maybe somebody else looked at this before but I hadn't really focused on this--loan losses as a percentage of total loans are 1.37 percent. That doesn't sound all that bad, but it turns out that 1.37 percent is by a wide margin the highest that this has been since 1936. And the loan losses in the banking system just in 1990 were $28 billion, as against before tax profits of $23 billion. Again, what is interesting about the $28 billion in losses is that while $7.7 billion was in real estate, $7.2 billion was in consumer lending, $8.5 billion was in C&I lending, and there was still $4.7 billion left over in all other categories of lending. Again, those are very big numbers and they're not confined by a long shot to real estate.

When I look at all those things, what leaps into my mind, other than that the chickens are coming home to roost, is that in some ways I'm surprised that we didn't have a credit crunch, whatever that may mean--I think Bob McTeer makes a good point there--a lot sooner or that it hasn't been a lot worse. But the way I come out on all those numbers is that, in the face of them, we're probably doing as well as we could reasonably expect to do. But that raises in my mind even more this question about the outlook. Clearly, those things strongly reinforce the view that the recovery, whatever else it may be, is going to be distinctly subpar. That has never bothered me per se. But the question that looms larger in my mind and has in the past is: With all of that, can we even get a result that looks like the Greenbook in a context in which I think the Greenbook [projects] a pretty good outcome if for no other reason than that it is respectable at least in terms of growth. But more than that, it is an outlook that is compatible with this continued whittling away at the core inflation rate. And I guess I'm not so sure that even that outlook is as comfortably in hand as I once thought it was.

CHAIRMAN GREENSPAN. Governor Kelley.

MR. KELLEY. Mr. Chairman, I guess there's one thing that's clear and that is that things are not ebullient.

CHAIRMAN GREENSPAN. We can stipulate that!

MR. KELLEY. We can stipulate that. The anecdotal evidence we've had at the table here this morning could hardly be more negative. We came out of the third quarter with a poor September and went into the fourth quarter with what looks like a poor October. And the confidence data that we're seeing certainly don't give us any confidence. Still, as I look at the data available to us, the third quarter, while not as strong as we had thought it might be, was not bad. The Greenbook outlook, which is probably about the best estimate that we can make, is certainly not all bad. And we have to keep in mind, as has been mentioned by several people, that we have a great deal of easing still in the pipeline, and I think that's very important. So, I ask myself: How can policy best help this situation? The first thing one has to say--and this has been said, too--is that a lot of what is going on here is structural and is not going to be susceptible to being helped by monetary policy. It's just going to take time to work through. But if we do feel that we want a little insurance for the middle part of 1992, cautious and modest easing would probably provide that. And if we do feel that things are going to hell in a handbasket in a hurry, then maybe it's time--or would be at some point--to get very aggressive and ring the gong very loudly.

One thing that I think is in everybody's mind is: How do we improve confidence? I'd like to say a word about confidence; I think it may be a little more complex than meets the eye. If we make another small move, it probably will have a small impact. We've made 10 small moves in the last 12 months. And we can each make our own assessment of what the effect on confidence has been from all of that. If we make a major policy move in an effort to improve confidence, it's not easy [to conclude] that it will have the result we want. On the affirmative side, of course, rates would probably drop, the prime rate particularly. Spending and borrowing would probably be helped at the margin. But there are potential negatives to it as well. For one thing, the Fed could come off looking panicked, which could possibly have very adverse consequences since we're seeing the data as being not that bad but people would wonder what the Fed knows that they don't know or what the Fed thinks that they don't think. And particularly right here with the drumbeat of the White House in our ears, I think the Fed could come off looking politically dominated. Both of those things feed into what I think would be very a poor situation if the Fed began to lose its credibility. In my view, we're just getting that solidly in place now after a long time of feeling that we deserved it and weren't getting it. And I would surely hate to see something happen that would knock that back. If something were to happen just as we were beginning to be accepted as fully credible and we were called into question again, it might be a very long time indeed before we could get that credibility back once more.

I think inflation expectations are beginning to wane in the economy and that's beginning to have a favorable effect. And I certainly would hate it if we were to do something that would call that into question again and cause that confidence that inflation is receding to waver. If it appeared that inflation were returning, once again we would be a long time weeding it out a second time. That could have the effect of holding interest rates, particularly long-term rates, higher than they would otherwise need to be. Also, there are the self-fulfilling elements of having inflation expectations [revive], which could make our job very difficult all over again.

There are a couple of other risks that we need to keep in mind as we think about the desirability of a very strong move, to the extent that that is attractive. For one thing, the stronger the move, the more likely it is that we would get a perverse effect in long rates. I don't know how likely that would be or at what point that would [happen], but we have to think about the possibility that that could occur at some point. The inflation battle isn't won yet. I've always been optimistic that we can and will win it and I still am; but I'm not quite as comfortable--to use the word that Jerry used just a few minutes ago--as I was. And frankly, the Greenbook forecast, which I'm sure is a very responsible and good one, isn't all that impressive to me in terms of the amount of inflation progress we're going to make over the forecast period through 1993. The dollar could weaken meaningfully if we got very aggressive [in easing]. Of course, that would help net exports. That would be good news for the short run but in the long run we'd have to deal with the inflationary consequences that could come out of that. Another thing that has not been mentioned yet today is that we're going into the political season, and there's going to be an enormous temptation in this environment for fiscal stimulus of one sort or another. I can envision the possibility, if we got a huge amount of stimulus moving through the pipeline, that we could be presented with some pretty tough choices. We could either accommodate that fiscal stimulus, in which case we'd have monetary and fiscal policy both easing at the same time we have this enormous deficit. Alternatively, we could offset it by an earlier tightening than we might otherwise desire. That could be very awkward to do from a number of different standpoints.

So, in sum, if things are going very wrong either now or in the future, we might just have to bite the bullet and ring the gong and run the risk of getting lead poisoning from the bullet. On the other hand, it's not impossible that things might turn out to be somewhat better or at least as good as they appear, in which case I don't think any immediate action would be required. And to the extent that is what we see, we'd have a little time to watch and wait. If we're unsure but would like to get some mid-1992 insurance--and we may well want to do that at some point--I don't think there's any rush to do it. There is some time still available to affect the middle part of 1992, and a delay will give us an opportunity to evaluate just what risks we have and to pick a time and a method to do that carefully and methodically. Mr. Chairman, that's where I am at the moment.

CHAIRMAN GREENSPAN. Governor Angell.

MR. ANGELL. I agree with those who suggest that this is a long-cycle adjustment process. I think anyone who saw what happened in the oil producing states and the agricultural states in the mid-1980s understood that this was going to be an asset price adjustment period. Now, monetary policy was sufficiently powerful in the mid-1980s to be able to abort that adjustment process. We are not just at 12 months and 10 small [easing] moves but 2-1/2 years and 490 basis points lower in the fed funds rate than we were in June of 1989. That's a rather significant move. Now, it seems to me that monetary policy lags may be increasing in this environment. And I wonder about looking at maybe at least two behavioral groups to see how that might be occurring. First of all for households, with their reliance on CDs and other short-term investments that we taught them to rely upon in the 1980s, I think that heavy shift really did not involve direct ownership of equities; and a very small amount of direct ownership of bonds by households leaves them rather vulnerable on the income side, [given] the interest rate declines that have occurred. The interest gap for the household sector is rather enormous when one thinks about short-term CD rates at 4-1/2 percent as compared to credit card interest rates of 19 percent. It doesn't take a great deal of brilliance for households--many of whom learned to have a mix of both short-term liquid assets and also to hold liabilities at the same time--to understand that there's a lot of payoff to shifting out of CDs and bringing down debt. That low rate of return for households is undoubtedly driving them into the equity market in a new way. As interest rates fall, that occurs. And that phenomenon means that we don't get quite the "bang for the buck" that we ordinarily would because we're not impacting the rates that households are paying as much as we're impacting the rates that households are receiving.

There's also a lagged phenomenon at commercial banks. In ordinary recession cycles there is a shift, of course, between lending and investment; but [when] a longer-term adjustment [is under way] that shift might be even more pronounced and longer-lasting and have some somewhat perverse effects. It seems to me that the real opportunity cost for commercial banks in lending is not exactly the opportunity cost in what they're paying; as U.S. government securities in the two- to three-year range become a larger portion of the assets of commercial banks, the real opportunity cost is the yield on those two- and three-year Treasuries. In a declining interest rate market that yield is much higher than the coupon rate. And as long as that yield is as high, in many ways commercial banks worried about asset quality in the lending area would naturally delay making the transition to aggressive lending. In many ways it seems to me, then, that the impetus to lend is going to come somewhat after interest rates have stopped declining. So, to some extent, declines in short-term interest rates may [lead to] a delayed effect as to what occurs.

Now, there's another factor we ought to consider and that is that long-cycle adjustments occur because conditions get out of whack. And those adjustments--those things that need to be changed--need to [occur]. In a sense aborting asset price adjustments doesn't help all that much. Asset prices need to adjust to a different level of expected inflation. And in some ways the faster those asset price adjustments take place the better the recovery. Unfortunately, the RTC and other ownership arrangements that don't cause these assets to be docked may indeed prolong the adjustments.

Another fact in the long cycle that we have to consider is that household savings in a sense are inevitably linked to capital inflows to the United States. And I think there are some real advantages for household savings to adjust in such a manner that we do not [continue to take] the share of the world's capital that we have been taking over the last 10 years. So, that savings adjustment needs to take place, and we need to keep in mind that we don't want to disrupt conditions by trying to create in a sense the typical recovery. The typical recovery is not going to be there; and trying to get that typical recovery will run greater risks of upsetting certain markets than if we go in a more steady-as-we-go [manner] through here. Just think how serious it would be if we were to upset the foreign exchange market or upset the equity market. One concern that I have is that the equity market could be in for a boom and that could involve a speculative fervor; and if this adjustment period is as long as I expect it to be, then a run-up in equity prices [until they get] out of line and then watching them unwind very rapidly is not going to be a very pleasant experience. So, the critical question in front of us is: What are we teaching the world that we are doing? Are we teaching the world that our focus is on employment and output or are we teaching the world that we continue to have a concept of price level targeting that will enable long-term interest rates to come down in such a way as to continue to get recovery in housing, which I think is essential to get this long-cycle process going our way? Just because it's a long cycle doesn't mean that it has to be an extraordinarily bad long cycle. And I think what we do is very, very important.

CHAIRMAN GREENSPAN. Governor Mullins.

MR. MULLINS. Well, I agree with Governor Angell that we don't have much risk of a typical recovery here. What I would like to see, though, is confidence that we at least have a sustainable recovery. I guess I do agree with the basic diagnosis that we're experiencing a gradual wringing out of the excesses of the '80s and that that is imparting downward pressure on growth. We've seen those excesses, and people are talking about an asset [deflation] in real estate. Expectations of inflationary home prices have collapsed, and

I agree with those who think that that has had a profound impact on consumers since that's probably the single most important component of their wealth. And I do agree that the leverage also was an excess. One can see the way corporations are using the current equity market to [deleverage]. Consumers not only have been reducing their debt, but their leverage has robbed us of the excess bench capacity to spur a recovery. So, we don't have that force. And I believe all this comes home to roost in financial institutions, which financed these excesses. We've seen this most dramatically in the collapse of the S&L industry; but it's also in banks, insurance companies, and finance companies, all with varying degrees of exposure to these structurally troubled areas of commercial real estate, unleveraged loans, and junk bonds. The public capital markets in my view adjusted quickly and brutally to these excesses. The stock market collapsed in '87; the junk bond market disintegrated in '89. But even after that period, the momentum of excess continued in financial institutions, and their retrenchment out of this is slower and more painful. They're still in the process--it was not only in 1990 but even in 1991--of recognizing and dealing with asset quality problems and pulling back to raise capital ratios and asset quality. We see this in the shrinking of financial intermediary credit at the same time that public market debt is growing. We also see it in slower M2 growth.

I think that much of the force of our easing to date has been absorbed by this retrenchment process instead of fostering spending. The ease in long rates and the rise in stock prices resulted in large new issue volumes, but the proceeds are not going to business spending; they're going to clean up balance sheets. The ease in bank funding costs has gone into the healing process of increased margins, and mortgage rate reductions have gone increasingly into refinancing to reduce home [mortgage payments]. We can't avoid this retrenchment process, but I think we must take into account these retrenchment pressures in setting our course. And our current stance has not been consistent with our earlier forecast of moderate sustained recovery, at least in my view. That earlier forecast had two engines of growth. First, sustained recovery in housing of modest dimensions and secondly, this inventory-led increase in industrial production. These two developments, housing and industrial production, were supposed to spur income growth and consumer spending with business spending coming in later. In my view, it's pretty clear that the forecast is not being fulfilled. The housing market, after advancing since early this year, has at best flattened out and is likely declining despite lower interest rates. Industrial production, after growing for four straight months, has been dead in the water for three straight months. The leading economic indicators also have flattened out and the momentum that was in evidence in mid-summer is now gone. And sentiment has turned increasingly sour.

With the importance of the consumer to our economy, I think we have relatively little room for error in the current situation. With industrial production and employment not growing, income growth will be minimal with a low saving rate and deteriorating consumer confidence. We've already seen it have an impact in the housing market; we've had long-term mortgage rates coming down dramatically over the last several months and yet the housing market is going in the opposite direction [of what one would expect]. I think that's the impact of confidence. There is a real risk in this environment and a potential for the momentum in this massive economy to turn down.

Business confidence is also increasingly sour, reflecting the deterioration of the recovery. And I fear there is power in negative thinking. [Earlier] the momentum was generated in part by an exogenous shock: the military success in the Persian Gulf. It raised confidence, which increased stock prices and bond prices and reduced oil prices. This time I see no such positive shocks on the horizon, although I wouldn't rule that out. I would agree with those who think the economy is vulnerable to a negative shock, and there are some potential ones in the financial sector. So, I have difficulty with the current [Greenbook] forecast [in terms of] understanding what is going to pull the economy out of this deceleration and place it neatly back on the track in the second quarter of '92. That is perhaps where I differ a bit from the Greenbook.

As for policy in the current environment, we need to weigh against these retrenchment forces and the deteriorating confidence in order to return to the track of this summer's Greenbook forecast. Since these are contractionary forces we are responding to, I see little risk to the inflation reduction program. Indeed, the current environment has been characterized by an extended period of slow growth of M2 and slow growth of credit. If you take one-year inflationary expectations right off the Michigan Survey and compare them to one-year bill rates, real rates are higher than they were last year at this time. So, I don't believe monetary policy is too easy. It is true that we've done three easing moves recently, but two of those--or I guess more than two--are already included in the Greenbook forecast. There are some arguments against making this adjustment. Some would argue that lower rates may not be especially effective. If so--if you think they're not going to affect the economy--they should not be especially harmful or risky to inflation. Despite doubts in every [bout] of economic weakness, I believe that monetary policy works. And I think a significant reduction in rates would help the housing markets and the stock and bond markets and would facilitate the [deleveraging] process, which ultimately must give way to business spending. I think it would help banks; it would precipitate a lowering of the prime rate and allow the pass-through of lower rates to final borrowers while still retaining the margins needed for the adjustment process. Ultimately it would help with consumer durables as the average age of autos reaches historical levels. The quality of domestically produced autos has improved substantially, and I think we'll have a pickup from that as well. Also, I think a move would cause the dollar to give up some of this year's gains and that would have an impact on exports. My view is that a move at this time would also help confidence; I don't think it would frighten people. It's pretty clear to me from the confidence surveys or the public opinion polls that consumers and business people alike perceive the deterioration in the recovery. The frustration is that they see nothing happening that could turn the situation around. They see no response. And if we respond in a discreet and visible way, I think that would be supportive to confidence, not frightening. It is true that we might be accused of responding to what Mike Kelley calls the drumbeat from the White House but since that drumbeat is constant [unintelligible] all is quiet up the street.

CHAIRMAN GREENSPAN. If they had an impact, they would have stopped at some point.

MR. MULLINS. And when they say this ease came just after a drumbeat, I would say: How does that distinguish that day of the week from any other day of the week? I do think there is some risk of dissipating the impact of our moves with continued small moves, and I wonder if we continue on this path whether we're going to have much of a "gong" left to ring. So, I think the time has come to make a move and to lean visibly against this ill wind before it blows us seriously off course. The risk to policy if we wait is that the force of economic momentum could well turn down and confront us with much more difficult policy situations down the road in 1992.

CHAIRMAN GREENSPAN. Governor LaWare.

MR. LAWARE. Mr. Chairman, I've really been startled by the recent clouding of our otherwise perfectly clear crystal ball. I also find it difficult to deal with the proposition that this is a bank-managed credit crunch that is a major factor in the continued sluggishness of the economy. After all, credit extension is a two-party transaction: a willing and demanding borrower and a willing and accommodating lender. And lenders who have been abused for reckless lending and excessive risk-taking can hardly be criticized for a more cautious current stance. As a matter of fact, I suspect that those who are complaining the most and the loudest about the unavailability of credit are the people who didn't pay back their loans last year and whose balance sheets have deteriorated substantially as a result of the economic slowdown. I think businesses and consumers at this point are confused and worried by the same conflicting signals that confuse and worry us. And they are not hammering on the doors of the banks demanding extensions of credit. In my opinion we are in a paralysis of confidence on the part of consumers and businesses as well as banks. And I am somewhat skeptical about the effectiveness of monetary policy in dealing with human psychological depression. It seems to me that confidence is more likely to return under the stimulus of a clearly enunciated political leadership in dealing with domestic issues, and I question whether further ease in interest rates will do the trick.

CHAIRMAN GREENSPAN. Coffee has arrived.

[Coffee break]

[CHAIRMAN GREENSPAN. Mr. Lindsey.]

MR. D. LINDSEY. Thank you, Mr. Chairman.

CHAIRMAN GREENSPAN. Excuse me, why don't you wait; we've just lost Governor Mullins. Sorry about that. We're back in recess pending the finding of a missing Board member. Here he is. Okay, go ahead.

MR. D. LINDSEY. Thank you again, Mr. Chairman. [Statement--see Appendix.]

CHAIRMAN GREENSPAN. Any questions for David? If not, let me get started. As I indicated at our telephone conference last week, I think what we are dealing with clearly is an historical process that has very little in the way of counterparts in the post World War II period. This is an old fashioned asset contraction. It is reflected most severely in the commercial real estate area, with obvious consequences in the financial [sector] as we discussed. It's reflected, strangely, in the residential single-family area even though the data themselves scarcely suggest anything even remotely close to the asset-price deflation in commercial real estate. Nonetheless, what is clear--and one picks this up from anecdotal evidence and at these cocktail parties we all go to--is that individuals somehow perceived that the market values of their residences were actually much higher than they really were. There was a sense in which the offering price they had in the back of their minds was the equivalent of a market [price], and what is happening now with the return of a degree of realism is basically that people feel that the prices of single-family residences are undergoing a fairly major decline. All of the analytical work we've done suggests that this is a major factor in household purchases, especially durable goods outlays.

Part of this process reflects not only the weakening in balance sheets, but it is also a significant element in the physical volume sense. As Gary Stern was saying earlier, what we have here is another "inventory" problem, which we've been discussing pretty much all year--especially earlier in the year--and last year. These inventories are not so much autos in the dealers' showrooms or unsold homes in the hands of developers, but too many cars in the garage and too many homes relative to the underlying demand. In a sense, not having had an economic contraction in the 1980s, we just never had that adjustment. Businesses and households picked up a much higher level of economic structures and of hard durable assets so that their balance sheets are all undergoing a fairly apparent adjustment process at this stage.

What is clear about this whole process is that one would assume that there is some significant price deflation going on. But I have been confronted with something, which I find really quite puzzling, in the differential behavior of the stock market and the bond market. If in fact there is a significant decline in inflationary expectations, which one would assume in this sort of environment and which is clearly supported by the slow growth in money supply even if we make all of our various adjustments, one would expect that price/earnings ratios in the market would be high. All of our history suggests that in a noninflationary environment price/earnings ratios are significantly higher than in an inflationary environment. Indeed, the level [of stock prices] today, calculated in a real rate of return sense, is fully consistent with the notion that the stock market is presuming that there is a disinflationary force out there and that a low discount rate on effective real earnings is appropriate. But if this is the case, why are real rates in the long end of the market as high as they are? Or, more readily getting at the issue of trying to make that calculation, why are nominal rates as high as they are?

One possibility, which I suggested to some of you--and I must say it's unclear whether it's true or not--is that we all view the intermediation process as something that brings down the real rate of return of long-term instruments. In fact, it is that phenomenon that creates the value-added in the intermediation process. As a consequence, if you are focusing on what has clearly been a crippling of the intermediation process, and the symptoms of this are all over the place, then the answer may be--and I'm not sure that this is a correct answer--that one of the reasons we have higher long-term real rates is that we are not getting the intermediation process that brings the whole basic rate structure down. That should not affect the stock price relationships because that's external to the intermediation process. But it is very clear that this issue is a major problem in trying to evaluate the extent of the disinflationary forces and how critical they really are. Measured inflation is higher than is consistent with the hypothesis that what we are looking at is a gradual disinflationary process. Part of this, however, may very well be the fact that there are significant increases in indirect business taxes that are showing up in the GNP accounts. And this is partly the issue at the state and local government level. It also reflects some of the excise taxes that were put in as part of the last budget agreement. Indeed, take a look at the nonfinancial corporate business rates and remember that they break down prices into unit profits, unit capital consumption allowances, unit indirect taxes, and all that. If you strip out the governmental actions that affect price levels--indirect business taxes and mainly subsidies, which usually come in in the other direction--then the rate of inflation that we are looking at through the second quarter in the GNP accounts shows that the total price increase for the quarter is 3.8 percent; excluding the direct taxes and subsidies, it is 3.1 percent. Now, I don't want to make too much of that, but it may well be that one of the problems we have here is a measurement problem because it's fairly apparent that we could have a highly disinflationary process and if we stick a bunch of sales taxes on top, we get measured price indexes in the CPI that are fairly significant.

The implication is that once we get beyond this particular period, the measured price inflation is likely to fall somewhat faster than is indicated in the Greenbook. In fact, if I had a bet on it, I would take it. The consequence of all of this is that we have seen, as everyone has mentioned, a very major crippling of financial intermediaries. Obviously, the S&Ls are not lending; they're in trouble [as are] the commercial banks and insurance companies. It's really interesting that the areas where we are seeing very strong lending are areas that are not touched by this, namely, the smaller finance companies, other than those involved in autos. In fact, the most interesting statistics that were given to us yesterday in the Board staff presentation were the very dramatic increases--a 25 percent annual rate--in small finance company lending. We're obviously seeing a tremendous amount of public offerings of equities and bonds. If the loan demand is so weak, why is it so strong in certain areas? I think the answer has to be in part that we are dealing with a very weak financial intermediary system. None of this is new. We knew all of this two, three, four months ago. We certainly knew it when the economy was coming out of the recession. What we didn't know is how significant all of this was, as Mike Prell mentioned earlier. There is no question that the economy was coming back in July and August. It wasn't coming back in a huge surge, but [at a pace] consistent with the proposition that this overhang of disinflationary forces was not very potent. In the last several weeks it is beginning to appear that that conclusion may not be correct; it can be a wholly false phenomenon. I had to live through the summer of 1976. We all remember the "recession" of the summer of 1976; that's what got Jimmy Carter elected. And in February 1977 there was this new "get the economy rolling" program which had to be pulled back because the economy was at that point rolling too fast. So, we have seen pauses before, and it is not inconceivable that this is exactly that. The trouble is that we just do not know that this is going to happen. And we have to think of policy in the context of a period which is very sensitive and one which in retrospect is going to look absolutely clear to all of our critics! What all of this suggests to me is that at this stage six-week intervals between contacts of this Committee are not particularly appropriate time lengths. In discussing the issues of policy, I would suggest, irrespective of what we decide to do, that we really ought to meet--and I don't mean physically but in a telephone conference--to review what is going on.

Having said that, in trying to balance the various forces as I see them, I think the risks of easing at this stage are very small. I say that for two reasons. One, if we were to move lower at this point, it would be in the context of the money supply showing a minus $4 billion when we publish it Thursday, leaving the growth of M2 for the year below the lower bound of the Committee's range. If we look at the credit structure, it is very tough to envisage inflationary forces re-emerging anywhere near this level. It's not interest rates that move inflation; it's finance. And so far as finance is concerned, we just do not have inflationary forces running. The rate of borrowing at this stage is the lowest it has been in the post World War II period. It is just extremely difficult to believe that inflation will take hold unless one believes that inflation is not a monetary phenomenon. And that, I suggest, just makes no sense whatever.

Secondly, I think the evidence of our ability to move on the up side during an election year is fairly significant. Earlier views were that the Fed could not move under those conditions. I think what we were able to do in 1988 clearly indicates that there's a change in the tone of how money and politics run. And, if it became necessary to turn around, I don't see any reason why we shouldn't be able to do that. I certainly would say, and I hope, that the will of this Committee is clearly in that direction.

So, I conclude from all of this that we ought to move lower. Because of the uncertainties that are involved in the outlook, I would suggest that we only do 25 basis points. Now, how we would handle that with respect to the discount rate is something that the Board of Governors will have to decide. Having gone through all of that, I would suggest to you that we are in a very unusual period. And while I hear this issue of a jump-start as being crucial, a jump-start is not the need of the economy because you can't jump-start the American economy. It's like a battleship or an aircraft carrier, which has to turn. We may at some point need an element that affects confidence. I would suspect that it's conceivable, as Mike Prell pointed out, that we may have to do some ringing of the bell a lot more loudly at some point. At the moment, however, I think it is very important that the Federal Reserve appear to be there because what has been going on out in the political world is the indication that nobody is minding the store. We're the last game in town. And to do something that suggests that we are there, that we are mindful of what is happening, and that we are up to date on everyone's concerns is a crucial factor that we have to keep in mind as the weeks go by. We're going to find out one way or the other where this whole thing is going within a much shorter time than I think we suspect. And in the interim, as I said earlier, we have to keep in somewhat closer contact with Committee members and make judgments in real time.

So, in summary, I would at this stage recommend half of alternative A, which I hope we would implement after the refunding is over, which suggests to me Friday. Governor Angell.

MR. ANGELL. Mr. Chairman, since we might be having a telephone conference call anyway, there's some uncertainty in my mind as to how that would take place if the Board were not to make a discount rate move. Wouldn't there be some advantage in going "B" asymmetric and then having a telephone conference call after we know what the Board is going to do? That would still mean the FOMC would be free to do what it chose to do, but it would then have knowledge about what the announcement--

CHAIRMAN GREENSPAN. Well, with the alternative I suggested we don't need a telephone conference because the 1/4 point is contingent on a discount rate cut.

MR. ANGELL. That could be an alternative. That would be an alternative that would be more appealing to me.

MR. KELLEY. Mr. Chairman, how would you propose to structure this technically? If there were to be a decision at this table to go down 25 basis points to be effective Friday, we have a couple of days to get through here that could be susceptible to some sort of leak to the market that could be of critical importance.

CHAIRMAN GREENSPAN. I would suggest to you that the experience that we have had in the last couple of meetings indicates that this is a secure organization. If that is false, then we have far more problems than we know. If you feel more comfortable about it and you want to leave it asymmetric, I would recommend that we go asymmetric but my intention would be to move.

MR. BLACK. Would that be on Friday?

CHAIRMAN GREENSPAN. Friday.

MR. BLACK. On the federal funds rate?

CHAIRMAN GREENSPAN. Yes.

MR. SYRON. Mr. Chairman, if I might just [comment] on that narrow issue. I think security after our unfortunate episode has improved. And if we really think that's what we're going to do--I have some sympathy for it and I'll get back to that later--then this group, depending on what it thinks the Board of Governors is going to do [on the discount rate], should vote for it now instead of going through the process of just saying we're not officially doing it because we're afraid of a leak in a couple of days.

CHAIRMAN GREENSPAN. I feel uncomfortable about it just because of that leak possibility. Wayne, are you through?

MR. ANGELL. Yes.

CHAIRMAN GREENSPAN. President Parry.

MR. PARRY. Mr. Chairman, it's pretty clear that the recent data have intensified doubts about the whole process of the recovery; that's clear to all of us. At the same time, we seem to be making some progress with regard to inflation. Under these circumstances, I too would favor the middle course, which I would define as a 25 basis point cut in the funds rate. I really would not favor the 50 basis point decline. It seems to me that gradualism has served us quite well. Of course, we reduced the funds rate 1/4 point last week and I think another 25 basis point, presumably on Friday, would be appropriate. If we wish to ring the "gong," it's very easy to do that, of course. And I guess in some respects I would be in favor of that. It seems to me that if the move of 25 basis points that we're talking about were combined with a move on the discount rate, that probably would accomplish a great deal as well. Finally, in terms of the language, I would favor asymmetric language on the down side.

MR. BOEHNE. Mr. Chairman, I just have a technical question before we proceed. We do have this even keel [consideration] in [the face of a Treasury] financing but is it an open-and-shut case that this change could not be done tomorrow morning? After all, we have the shortest maturity being auctioned today, which isn't as affected by these fluctuations. If we did it tomorrow, both the medium-term and the longer-term bidding would still be ahead of us. And I am thinking, given the risks--and while we are an honest organization--that that's a long time to go. I'm just wondering what the pros and cons are.

CHAIRMAN GREENSPAN. Well, may I make a suggestion?

MR. BOEHNE. Yes.

CHAIRMAN GREENSPAN. Let's wait to see what conclusion we come to. Then, let's put "when" on the table, if that is the conclusion, as a separate issue.

MR. BOEHNE. Okay.

CHAIRMAN GREENSPAN. Okay. Bob Parry, are you finished?

MR. PARRY. Yes.

CHAIRMAN GREENSPAN. President Forrestal.

MR. FORRESTAL. Mr. Chairman, I came into this meeting feeling that we should cut the funds rate 25 basis points. I also hoped, and I still continue to hope, that that will be accompanied by a drop in the discount rate. I think that would send an important and dramatic message that we really need to send. As you said, the momentum of this recovery has slowed down or even stalled. I pay a great deal of attention to this confidence element, and I think people really need some kind of a signal from some institution. And given the impotency of fiscal policy at the moment, we're the only institution that can provide some kind of action that will help to turn confidence around. Twenty-five basis points and even a drop in the discount rate may not renew confidence completely, but it will go some of the way toward helping with that and helping with the further consumption and business [unintelligible] needs. Finally, I agree with you entirely that the inflation risks of moving at this time are very minimal. So, given the risks to a sustainable recovery, I think we need to move and 25 basis points strikes me as [appropriate].

CHAIRMAN GREENSPAN. And would you be asymmetric?

MR. FORRESTAL. I'd be asymmetric.

CHAIRMAN GREENSPAN. President Syron.

MR. SYRON. Mr. Chairman, while I'm in favor of what you want to do, some questions arise, given what we know and don't know. What we do know is that we have risks on the down side and that, while we may not be able to control things, we can influence them. This issue of confidence, which others have spoken of, is very important. I think the worst thing we could do would be to tell the American public not only that fiscal policy is impotent but that we don't think there's anything the Federal Reserve can do either. I think people would give up. Also, in terms of the longer time frame, if it should be necessary to turn back, I think the Federal Reserve would do it. It's a win/win situation in some sense if the economy recovers because we buy more credibility in the long run by showing that we're willing to do it then. I certainly hope, because I think some--to use the phrase of the day--"gong effect" is needed, that the 25 basis point cut will be associated with a cut in the discount rate. Some of [my concern] does have to do with the timing issue that Ed Boehne raised and that you want to return to. But I'd be in favor of [your proposal] and I'd be in favor of asymmetric language.

CHAIRMAN GREENSPAN. First Vice President Hendricks.

MR. HENDRICKS. Thank you, Mr. Chairman. Our support for the recent reduction in the fed funds rate was based on the need to encourage a stronger growth rate of M2, not because of a perceived threat to the economy in the District or the nation. We're concerned over the persistent weakness in M2 since last spring and its longer-term trend over the past four years. A stronger growth rate in M2, within its target range, would likely add to the credibility of that target and would provide the base for a realignment of intermediate- and long-term rates. Normally, we would be inclined to wait a bit longer to judge the impact of this recent reduction in the funds rate to the 5 percent level. Work in Cleveland suggests that if we want a fourth-quarter-to-fourth-quarter 1992 growth rate of 3 percent in M2, we need a funds rate lower than 5 percent. Projections of M2 growth have fallen short for some time now, and we would prefer to push on the funds rate until we get M2 safely to a level we are comfortable with. We're getting close now to next year and, although we haven't come to a finalization on our view yet, our guess is that we will want something around 3 percent. We would not mind going into next year a little heavy on M2 growth, but we don't believe the 1/2 point reduction in alternative A is needed at this point; our preference is for the position half-way in between. We believe another 25 basis point reduction of the funds rate with symmetric language is appropriate at this time. And we believe we should push ahead as rapidly as we can to get the M2 growth we want.

CHAIRMAN GREENSPAN. President Keehn.

MR. KEEHN. Mr. Chairman, it seems to me that the small reductions we have been doing really aren't producing the desired results, with M2 in this process having continued to deteriorate. We haven't reduced the discount rate since September and that seems to me an awfully long time to have left such a visible rate in place, not having made a change. I do think we are at a point where we need to do something a little more visible. This confidence factor is important. Also, it's important to do something that will bring the prime rate down. I'm not [certain] that a lower prime rate is necessary to encourage more lending, at least at the outset; however, ultimately, I think it does work its way through to higher lending. But it certainly does reduce the costs [of doing business]. My preference would be to reduce the discount rate by 50 basis points and the fed funds rate by 25 basis points. As to whether it's Wednesday or Friday, I have a slight preference for Friday, but I don't care. I must say, having heard the conversation earlier, that I don't know quite how much confidence I have that a change in the discount rate [will be adopted] at this point. Lacking that, then I'd be in favor of alternative A with a 50 basis point cut in the fed funds rate. But I could live with 25 basis points now on the fed funds rate if there were asymmetric language. If [the consensus] were for 25 basis points now and symmetric language, I'd find that a very difficult option at the moment.

CHAIRMAN GREENSPAN. President Boehne.

MR. BOEHNE. I favor this "A to B" 4-3/4 percent funds rate with an asymmetric directive for this body, and I think it ought to be accompanied by a discount rate reduction by the other body. The logic is that we have a reasonable prospect of doing some good with this package and I think we have very little chance of doing harm. And even if we find it is harmful, we can undo it. So, in that situation, it seems to me we ought to do it.

CHAIRMAN GREENSPAN. President Stern.

MR. STERN. I find these unusually difficult circumstances, but on balance I come out in agreement with you. It's not that I think a 1/4 point reduction in the funds rate, whether or not it's accompanied by a discount rate reduction, is going to do a lot quickly and directly for consumer confidence or [business confidence] or jump-start the economy. And we know more about jumper cables and jump-starts in Minneapolis than most! But my expectations would be more modest. I am concerned about the slow growth of M2, not so much in a strictly monetarist context but in the sense that going into this year I at least was looking for continuity in policy, not a sharp departure in M2 growth from what we experienced in the previous four years. I think continuity is still a virtue. I don't believe such a move at this point would weaken our credibility. In fact, it might enhance our credibility and I think it's the responsible thing to do at this time. And I don't think it would interfere with wringing out the excesses of the 1980s, a process which has to continue if we're going to restore economic health.

CHAIRMAN GREENSPAN. President Melzer.

MR. MELZER. I'm in favor of standing pat right now. I'd go with alternative "B." We just moved. [Unintelligible]. It's not an original idea; Wayne alluded to it and others have mentioned it. But I'm not so sure that a lot of activity isn't frozen on the expectation that rates are going to go lower. A lot of people are just waiting to see. So, I'd just stay where we are and watch for a while. Also, I wouldn't be so quick to say that there isn't any inflationary risk right now. I continue to think long rates are a reflection of long-term inflationary expectations. I wouldn't be a bit surprised, if we made a move, that long rates would come down somewhat. But I don't think that's the measure; it's a measure over a longer period of time of what those rates are doing. I think we have to be careful if we disturb them.

CHAIRMAN GREENSPAN. President McTeer.

MR. MCTEER. I think your recommendation of a 25 basis point cut in the funds rate is appropriate. And in the context of more frequent discussions in the coming weeks, I would prefer the symmetric language.

CHAIRMAN GREENSPAN. President Hoenig.

MR. HOENIG. Mr. Chairman, I have some concerns about easing now in terms of inflation down the road. I assume that there may be a discount rate cut. If that's the case, that would make for an announcement from the Fed and then I would recommend the possibility of a 1/4 point cut on asymmetric [language toward] easing based on new information that may come to you. So, I'd be slightly different.

CHAIRMAN GREENSPAN. Vice Chairman.

VICE CHAIRMAN CORRIGAN. I would favor the 25 basis point reduction in the funds rate accompanied by a discount rate change of 1/2 percentage point, recognizing, of course, that the timing decision [for the discount rate] itself is the Board's. If both of those things were done--this gets into Ed's question about timing--I probably would favor a symmetric directive thereafter. With just the funds rate done, that complicates matters and I'd probably favor an asymmetric directive.

CHAIRMAN GREENSPAN. The trouble is: Which would you vote for?

VICE CHAIRMAN CORRIGAN. That means I'd vote either way.

CHAIRMAN GREENSPAN. President Black.

MR. BLACK. Mr. Chairman, I'd like to suggest a compromise, which I guess would be controversial, though.

VICE CHAIRMAN CORRIGAN. That's how it's a compromise!

MR. BLACK. I thought we had covered every permutation and combination we could have, but I don't think anybody has come up with exactly this. I would leave the federal funds rate where it is for right now, but I would favor submitting--in the case of our Bank, which would join several others--[a recommendation for] a 1/2 point cut in the discount rate with the hope that the Board would see fit to approve that on Friday. If we had a steady federal funds rate right now, I think that would be a good way to reassure the long-term markets and it would give us a little more time to judge the easing actions that we took last week. At the same time, reducing the [discount] rate would reestablish a more normal spread between the discount rate and the federal funds rate. And a very important point, to which Governor Angell alluded earlier as did Tom Melzer, is that it might also convince a lot of potential borrowers who are sitting out there just waiting until they think rates have hit the bottom to move into the fray. A lot of people in the real estate business think that is true. Now, if we did adopt that approach, which I'm sure we're not going to, I would favor having an asymmetric directive in favor of ease thereafter.

CHAIRMAN GREENSPAN. Governor Kelley.

MR. KELLEY. Mr. Chairman, I don't believe the state of the economy is quite to the point here that others seem to feel. We may get there, though I hope we don't; I don't think we're there now. I think there's still a lot of stimulus in train that is going to support us as time goes forward. And I don't view a discount rate cut here as quite as riskless as we would like. As a consequence, I would prefer alternative B but I do believe that asymmetric language is warranted under these circumstances. I'm aware of the fact that you have said you would use it if you got it. If that turned out to be the case, so be it.

CHAIRMAN GREENSPAN. Governor Mullins.

MR. MULLINS. I would favor a 1/4 point cut now and also asymmetric language because I believe the risks are still very much on the down side. We're playing catchup.

CHAIRMAN GREENSPAN. Governor LaWare.

MR. LAWARE. Well, I must say that I feel like the person who is lost in the woods who as a boy scout was told that if you get lost in the woods find a stream and follow the stream downstream and you'll eventually come out. It may be a long trek if you're somewhere near the Continental Divide! But I sense that there's a stream going along here, and I guess I'm persuaded that the downside risks are not material. So, I will vote reluctantly for "A" symmetrical.

CHAIRMAN GREENSPAN. I'm sorry, with the 25 basis points?

MR. LAWARE. Yes, 25 basis points down but symmetrical language.

CHAIRMAN GREENSPAN. I've run out of people. It's clear that there is a majority of the Committee for 25 basis points. I count one, two, three, four, five...; there is a majority for asymmetrical. Let me ask you this: Is anyone's vote dependent on "when?" Can we discuss that independently?

MR. PARRY. Well, maybe Peter ought to address that issue.

CHAIRMAN GREENSPAN. No, no, what I'm trying to say is whether or not the vote [unintelligible] we just took a survey. What I conclude from marking down what everyone has said is that there is a majority for both 25 basis points now and leaving asymmetric language. The question I am asking is: Was anybody's [decision] related to whether that would be done, if it were done, sooner or later? In other words, can we discuss that issue after we find out whether in fact that is the consensus of the Committee?

MR. PARRY. Yes.

CHAIRMAN GREENSPAN. I'm merely asking whether these are independent events in a sense.

MR. PARRY. Yes.

CHAIRMAN GREENSPAN. Okay. If that's the case, then I would ask that you read the directive.

MR. BERNARD. "In the implementation of policy for the immediate future, the Committee seeks to decrease somewhat the existing degree of pressure on reserve positions. Depending upon progress toward price stability, trends in economic activity, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets, slightly greater reserve restraint might or slightly lesser reserve restraint would be acceptable in the intermeeting period. The contemplated reserve conditions are expected to be consistent with growth of M2 and M3 over the period from September through December at annual rates of about 3 and 1 percent, respectively."

CHAIRMAN GREENSPAN. Would you call the roll.

MR. BERNARD.

Chairman Greenspan	Yes
Vice Chairman Corrigan	Yes
Governor Angell	No
President Black	Yes
President Forrestal	Yes
President Keehn	Yes
Governor Kelley	No
Governor LaWare	Yes
Governor Mullins	Yes
President Parry	Yes

CHAIRMAN GREENSPAN. Okay. We now ought to have a discussion on the timing of this. Do you want to start, Peter, on the issue of what would happen if we move 25 basis points Tuesday, Wednesday, Thursday, or Friday?

MR. STERNLIGHT. Well, Mr. Chairman, as I said in my statement, I think the market is looking for further easing: probably a further 1/4 point on the funds rate and probably also a discount rate move. That has to be on their minds as they bid on these Treasury offerings. Yet, I can't escape the feeling that it's somehow potentially disruptive to have those changes actually implemented right within the period of bidding for the Treasury securities. If something had been done early this morning, a couple of hours before they come up to bidding for the 3-year, so be it. We did that in August, I believe, when a small change was implemented the morning of the 3-year auction. We did get a certain number of complaints from the market even about that. But with a move that occurs right within the bidding period we would hear even more about it. You can say, well, why wouldn't an easing move if anything be a plus for securities if they take them? But you have to remember that they're in the midst of a distribution process where they are shorting; they are selling on a "when-issued" basis the issues that are about to be bid for. So, you could catch some market participants in that stage of having sold "when issued" to some customers with the expectation that they will then be putting a bid in the auction. I think that's an awkward position to be leaving them in. So, I have just a gut feeling that it's preferable to wait. Now, how long should you wait? It seems to me Friday would be about the earliest that I could feel comfortable with. I could even make a case for having it carry over to early next week. But I would feel most strongly that it would be preferable not to implement a visible change just within these bidding days of today, Wednesday, or Thursday.

CHAIRMAN GREENSPAN. Do you want to [comment]?

MR. D. LINDSEY. I agree with Peter's comments.

CHAIRMAN GREENSPAN. Governor Angell.

MR. ANGELL. Mr. Chairman, I hope my advice is wanted on this even though it wasn't on the other. I do believe that there's an integrity question here. Information is scarce and information is hard to come by for the market. And I don't feel comfortable for us to deliberately let an auction take place for a 10-year issue tomorrow morning and not let the markets know all that we know. I do not feel comfortable with people taking short and long positions on an auction tomorrow while we know precisely what we're going to do. It seems to me that the fairest thing to do is to do it as soon as the markets have [closed], which I think for us would be tomorrow morning. I would also suggest, Mr. Chairman, that there have been times that we've had leaks that are more in the realm of information for [news media]. But if we were to have a leak, that would only be seen as an advantage for someone in the market and would do this institution a great deal of harm.

CHAIRMAN GREENSPAN. You know, I must say I agree with that. Let me cite one of the problems I have. The FOMC is scheduled to meet on a publicly announced date and is expected to make decisions. The market knows that. If we in the past had moved during an auction, everyone would have screamed bloody murder. But the question essentially is: Who is right in this question? And the question I'd like to put to a vote with you is: If we were to do it some time in the middle of the auction, how much damage would actually be done?

MR. D. LINDSEY. I personally started out with that view last week and early this week. And I thought particularly that if the Committee were to go down 1/4 point, that is what is expected and it could be done in [the midst of] an auction. But after talking to Peter, who yesterday read me a litany of commentators saying it's inconceivable that the Federal Reserve would move during the auction, I said: "Peter, I realize that's a common view, but is it right?" I was resisting even then. I did finally come around to the thought that it would be better not to mix this policy change with the middle of that bidding process. So, as I said before, I personally come down with Peter on this one. After having thought about it, I realize there are two sides and I've been on both!

CHAIRMAN GREENSPAN. But answer the question. How much damage is actually done?

MR. SYRON. Mr. Chairman, may I add to your question? How much damage is done and to whom is the damage done?

MR. D. LINDSEY. Well, let's say that the 1/4 point isn't fully built in. Let's say we announce tomorrow and there's a little decline in the yields in the 3-year note. To the extent that there is some market reaction, those who went short on the 3-year are going to be hurt and we're going to hear from them. There are going to be complaints. I think they'll complain more if we move tomorrow than if we move on Friday in the sense that they're going into their bidding on the 3-year note pretty sure that we are going to move on Friday. So, they're not as likely to write irate letters even if yields move against them. So, there are people who potentially are damaged. I should probably let Peter--

MR. STERNLIGHT. [Unintelligible.]

MR. BOEHNE. In these kinds of situations where you have something of a trade-off, I think you have to ask yourself a question: If I had to defend the actions to the whole world, which side would I rather be on? And I would rather be on the side that said we had a scheduled meeting and we made a decision; there was speculation pro and con but we implemented that decision in the market so that everybody would find out about it at the same time. I'd rather say that than that we delayed it for three days or five days or six days because we were afraid a few people would get hurt selling short. In the whole context of what our role is as a public institution, we have to go with the side that meets our standards and with which we feel comfortable.

CHAIRMAN GREENSPAN. Well, you have to ask yourself: What is the job of the market people? Their job is to make judgments as to what is going on in the market. And one of those jobs is [judging] what we're going to do.

MR. SYRON. Mr. Chairman, I just want to associate myself very strongly with the views both of yourself and Governor Angell. I think this is a case where there is a question of integrity of the organization in what we're doing, particularly in the environment of the last several months domestically. I'd be concerned about not letting people who are paid to bear the risks bear the risks when we really don't think, from what I hear, that this is something we fear is going to do a lot of damage to the economy. And the economy is what we're supposed to be concerned with.

CHAIRMAN GREENSPAN. President Black.

MR. BLACK. Mr. Chairman, there's another complication. A number of us have meetings of our executive committees or full boards on Thursday and we'll be addressing the question of the discount rate. And if we know that we're going to cut the federal funds rate 1/4 point on Friday, we can't tell the directors yet. They don't have the information they need to make a rational decision. So, there's another reason for doing it now rather than then, although I have a lot of sympathy for what Peter and his associates have been saying.

MR. PARRY. You mean you can't make a recommendation on the discount rate independent of that?

MR. BLACK. Sure, I can; but I have knowledge that they don't have that I can't share with them.

MR. PARRY. Yes, but you--

MR. BLACK. And I wouldn't--

VICE CHAIRMAN CORRIGAN. That's true all the time.

MR. BLACK. Well, it is [a concern] to me not to share information and give them my best judgment, which would have to be affected by the knowledge that we were going to cut [the funds rate] 1/4 point the next day. We're pretty free with our directors but we never tell them anything about what we're going to do or anything about what we just did that isn't released, and we never will. So we couldn't possibly tell them that this 1/4 point [reduction] was pending. And yet I think their attitude would be affected to some significant extent by that if they knew.

CHAIRMAN GREENSPAN. Governor Mullins.

MR. MULLINS. First, I think we shouldn't schedule FOMC meetings around quarterly auctions.

CHAIRMAN GREENSPAN. Why don't the quarterly auctions schedule themselves around our meetings?

VICE CHAIRMAN CORRIGAN. That's not a bad idea!

MR. MULLINS. I tend to agree with Wayne's analysis, although I think we should be aware that there is potential damage here. The concern I would have is the 30-year auction, because that price is no longer being set by people at the margin. On auction day, Thursday, they will rip open the market and reach deep within it to sell $12 billion worth of bonds and, when you do that, that marginal buyer is sometimes a fairly aberrant personality. If there is skepticism about our move, I don't think we would see that on Friday so much because, again, they are trading at the margin. And we just are more vulnerable and at risk of getting a sloppy auction and doing some damage to the long-term rate. I think that happened a bit in April, and there have been some other examples as well. Even recognizing that risk, I still would come down with Governor Angell.

CHAIRMAN GREENSPAN. President Melzer.

MR. MELZER. I was just going to ask Peter: If, say, we did it tomorrow, how effectively could you transmit it? I don't know what mode open market operations are in right now.

MR. STERNLIGHT. Well, we think we have a moderate add need. We didn't do anything today because funds were sitting right at 5 percent. If we wanted to transmit a signal tomorrow, we probably could do overnight system repurchase agreements and it probably--

MR. ANGELL. At what time, Peter?

MR. STERNLIGHT. At our normal time.

MR. FORRESTAL. Could we do it early, though?

MR. ANGELL. You wouldn't do it early?

MR. STERNLIGHT. I don't know. I'd have to think about that; I wouldn't be inclined to.

MR. SYRON. If that's your concern, wouldn't you have to put more in if you do it at the regular time rather than by doing it with an announcement effect before the market opens?

MR. STERNLIGHT. I don't know. My inclination would be to do something--. To go back to this question of damage, I don't see terrible damage from doing it, and I really have a lot of sympathy for what Governor Angell and others have said: If there's a change in policy, it ought to be transmitted to the market. Maybe I've been too close to the markets on this, but I think we'll get some adverse reactions.

MR. MELZER. I'm a little rusty on this. I was just going to ask: What is the dollar price effect of 10 basis points on the 10-year?

VICE CHAIRMAN CORRIGAN. A whole bunch!

MELZER. Exactly. So, if somebody is short $50 million on the 10-year, isn't that--?

VICE CHAIRMAN CORRIGAN. It's probably $150 per 1/32 per million.

MR. STERNLIGHT. But as the Chairman has said, they're all big boys and they know that we're facing these policy decisions and could be acting. They know we're having a meeting today.

CHAIRMAN GREENSPAN. Vice Chairman.

VICE CHAIRMAN CORRIGAN. I tend to be a bit conservative, as you know, about these things. But in this context, I frankly don't worry about [unintelligible] people maybe getting burned because they're short. They are risk takers. What worries me is a little more far-reaching than that, and that is, as you know very well, we have to be very careful about this marketplace. Governor Angell is quite consistent. But going back to our discussion a week or 10 days ago when we were talking about basically dismantling the whole infrastructure to that market, this is a very concrete, vivid example of the kind of thing I'm worried about. And we've got to be careful of these things.

CHAIRMAN GREENSPAN. Well, what we ought to do is at least schedule our meetings--

VICE CHAIRMAN CORRIGAN. Well, I think Dave has the right idea. Notwithstanding my extreme caution in terms of some of these other more sweeping moves, in this particular context I'd go ahead and do it on Wednesday and take our chances. But that doesn't mean that my anxieties about the need for a little care and nurturing of this market can be assumed to have disappeared.

CHAIRMAN GREENSPAN. President Forrestal.

MR. FORRESTAL. I think my question has been answered. I was going to raise the question about how we would get the announcement effect out tomorrow. The last time we did this there was some confusion in the market. So, whatever we do, we ought to make it very clear. On the broader issue, I'd go ahead and do it and risk the letters and so on. I just wish we had done it early this morning!

MR. BLACK. If you hadn't talked so long, maybe we could have! [Laughter]

MR. MELZER. That's impossible.

MR. BLACK. I know. I'm being facetious.

CHAIRMAN GREENSPAN. Governor Kelley.

MR. KELLEY. Mr. Chairman, I'm very strongly in the camp with Governor Angell. We have made a decision here and it becomes at that point a simple question of integrity. With this auction going on, we now know what has been done and what will be done and it is only a matter of straightforward integrity that we have to go on and do it and release that information. If we did not make this effective right away, in time, as the minutes come out, the fact that it was decided upon and then delayed would be known to the market and I think we would quite correctly suffer an integrity question and a credibility gap that we would deserve to suffer. And that would be there for a long time.

MR. MELZER. I didn't want my comments to be misinterpreted. I'd support going ahead and announcing it. It think it's unfortunate but I support that.

CHAIRMAN GREENSPAN. Well, we also ought to see if we can arrange not to have a conflict; this issue has come to us before.

SPEAKER(?). Bizarre.

SPEAKER(?). It's just crazy.

CHAIRMAN GREENSPAN. This issue shouldn't be coming to the surface. Tom.

MR. HOENIG. I totally support taking this action tomorrow for the very reasons that Governor Angell, Governor Kelley, and others have expressed. We need to get it out.

CHAIRMAN GREENSPAN. Okay. Anyone else?

SPEAKER(?). I'd go now.

MR. BLACK. Could I ask Peter one question, Mr. Chairman? Peter, if we went in before the normal time, which you could and sometimes do, would that alleviate to any extent the problem that you alluded to originally?

MR. STERNLIGHT. It probably is a better way to make sure the message gets across immediately. I don't think it will remove some of the down side that I see. I'm kind of swinging around in my own view.

MR. BLACK. I'd favor doing it in the morning, first thing.

MR. KELLEY. Just make an announcement--not let it happen through the market?

MR. BLACK. No, I was thinking about going ahead and doing it through the market tomorrow as soon as the market opens.

MR. BOEHNE. As soon as the market opens?

MR. BLACK. That's what I think I'd do.

CHAIRMAN GREENSPAN. Okay.

MR. KELLEY. Not 11:00 a.m.?

MR. BLACK. No, nor 11:30 a.m.

CHAIRMAN GREENSPAN. The next meeting is December 17 and we will adjourn for our luncheon for our departing colleague.

MR. PARRY. Is that a one-day meeting?

CHAIRMAN GREENSPAN. A one-day meeting.

END OF MEETING